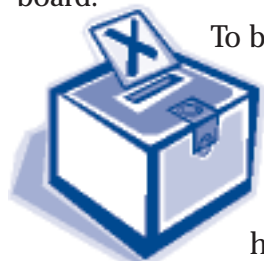


THE SERS ELECTION IS COMING!

Would you be interested in serving on the SERS Board of Trustees to help oversee the operations of your retirement system? Every five years we hold an election for an active SERS member with at least 8 years of service to serve a five-year term on the seven-member board.



To be eligible for candidacy, an active member must file a Statement of Candidacy and have a Nominating Petition signed by at least 400 active SERS members. (For more information about the election, see the Timeline below.)

On May 1, 2006, ballots will be mailed to all qualified SERS members. These ballots must be sealed in the envelope provided and received in our office by May 30 to be counted.

The SERS Board of Trustees meets four times a year to review disputed

benefits, reviews and approves the annual operating budget, approves legislative initiatives, and administers policies & procedures.

Some trustees serve on the Board because of their position in State government. Others are appointed by the Governor because of their particular expertise.

We encourage all active members to participate in this election, since we all have a personal interest in the finances and benefits of SERS. If you're interested in running for the Board position, contact our offices in Springfield (217-785-7017) or Chicago (312-814-5853).

WHO IS ON OUR BOARD OF TRUSTEES?

1 Public member appointed by the Governor to serve as chairman

1 Active member appointed by the Governor

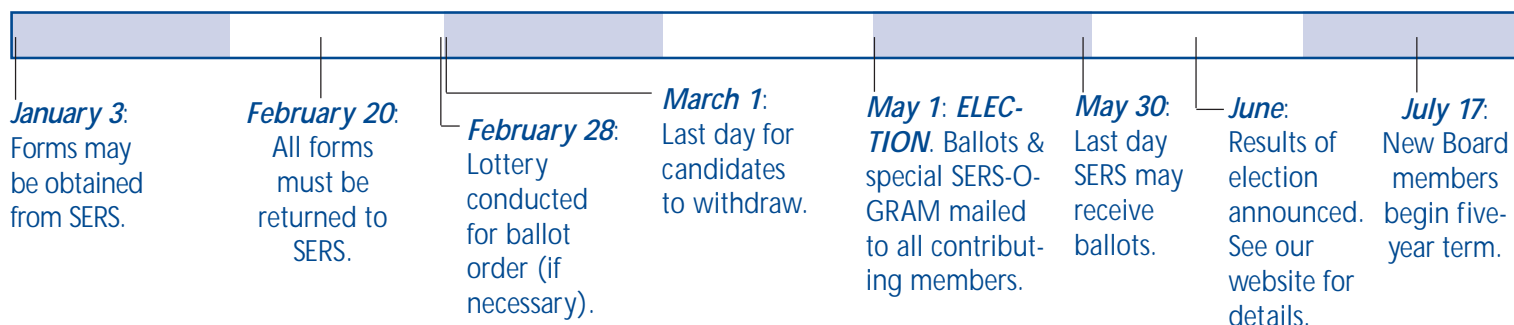
1 Annuitant appointed by the Governor

1 Elected active SERS member

1 Elected SERS annuitant

2 Ex-officio members: the Director of the Governor's Office of Management & Budget, and the Illinois Comptroller

2006 ELECTION TIMELINE



Top 10 Reasons to Save for Your Future

Reason #10: People are living longer. That means your savings might have to last almost as long as your working career.

Reason #9: Inflation—things just keep getting more expensive. Just think how pricey it will be to take your grandchildren out for ice cream when you're retired.

Reason #8: Most of us are going to need additional retirement income. One way to save that money is to join your Deferred Compensation plan.

Reason #7: Deferred Compensation offers you several different investment choices—so you decide how your savings are invested.

Reason #6: It's easy to participate in Deferred Compensation because you don't have to make a big financial commitment.

Reason #5: Your contributions are deducted from your paycheck and directly deposited into your Plan account.

Reason #4: The vested portion of your plan account is portable, so if you change jobs, your account moves with you.

Reason #3: Every pretax dollar you contribute to the Plan lowers your taxable income on your annual tax return.

Reason #2: Your savings grows tax-deferred. The money you would have paid Uncle Sam gets the opportunity to grow and compound for your future.

Reason #1: Compounding makes the money you save today more powerful than the money you save tomorrow.

The Illinois State Board of Investment – Managing Your Money

By William R. Atwood, ISBI Executive Director

The Illinois State Board of Investment (ISBI) was created in 1970 to manage the pension assets of the State Employees' Retirement System, the Judges' Retirement System and the General Assembly Retirement System.

The ISBI is an independent agency whose mission is to achieve an actuarially assumed rate of return (currently 8.5%), while assuming the lowest possible risk and applying the highest standards of ethics and accountability.

The assets under ISBI's authority total approximately \$11.1 billion. These assets are invested in a diversified portfolio of global stocks & bonds, real estate, private equity, and cash.

None of ISBI's assets are invested internally. Instead, they are deployed through the utilization of various money managers and investment advisors. The assets are deposited at

ISBI's custodial bank, State Street Bank and Trust Company, the largest such custodian in the world.

ISBI is comprised of a nine-member Board and a staff of investment professionals. Edward Smith is the Board's Chairman and its Executive Director is William Atwood. There are four committees, including the Audit and Compliance Committee, Hon. Thomas Hoffman, Chair; the Emerging Manager Committee, Allison Davis, Chair; the Investment Policy Committee, Edward Smith, Chair; and the Executive Committee, which is also chaired by Mr. Smith.

Other members of the Board include Jack Mazzotti, Chairman of the State Employees' Retirement System, Hon. Kurt Granberg, Chair of the General Assembly Retirement System; Hon. Judy Baar Topinka, State Treasurer; Ron Powell; Guy Alongi; and one vacancy.

ISBI Holdings as of September 30, 2005

Amount of Funds Held by the ISBI: \$11,084,672,909.77

Monthly Rate of Return: 0.35%

Asset Allocation Domestic Equity	5,743,712,743.20	51.8%
Asset Allocation International Equity	1,161,673,727.24	10.5%
Asset Allocation Fixed Income + Cash	2,846,553,722.17	25.8%
Asset Allocation Alternative Assets	428,034,951.18	3.9%
Asset Allocation Real Estate	886,697,765.98	8.0%
	TOTAL	100.0%

Statements of Plan Net Assets
June 30, 2005 and 2004
(Unaudited)

	2005	2004
ASSETS		
Cash	\$ 204,525,471	\$ 66,642,027
Receivables	36,938,006	85,035,275
Investments (at fair value)	10,271,356,795	9,840,077,880
Equipment (net of acc. depr.)	3,071,449	3,152,081
Total Assets	\$ 10,515,891,721	\$ 9,994,907,263
Total Liabilities	\$ (21,743,768)	\$ (4,720,389)
Net Assets Held in Trust for Pension Benefits	\$ 10,494,147,953	\$ 9,990,186,874

Statements of Changes in Plan Net Assets
June 30, 2005 and 2004
(Unaudited)

	2005	2004
REVENUES		
Contributions:		
Members	\$ 209,334,207	\$ 199,826,465
Employer	427,434,612	1,864,673,411
Total Contributions	\$ 636,768,819	\$ 2,064,499,876
Investment Income	\$ 953,579,253	\$ 1,421,912,540
TOTAL REVENUES	\$ 1,590,348,072	\$ 3,486,412,416
EXPENSES		
Benefits	\$ 1,063,970,423	\$ 978,201,010
Refunds (including transfers)	14,105,301	12,442,600
Administrative	8,311,269	7,693,348
TOTAL EXPENSES	\$ 1,086,386,993	\$ 998,336,958
Net Increase/(Decrease)	\$ 503,961,079	2,488,075,458
Net Assets Held in Trust for Pension Benefits:		
Beginning of Year	9,990,186,874	7,502,111,416
End of Year	\$ 10,494,147,953	\$ 9,990,186,874

FY05 Tally

OPERATIONS

Member contributions in FY05 rose moderately (4.7%) from the FY04 amount, in line with the general increase in wages subject to retirement, and an increase in optional service purchases.

Employer contributions in FY04 were \$1.864 billion, including \$1.386 billion in proceeds from the sale of General Obligation bonds by the State of Illinois. Without these bond proceeds, the FY04 employer contributions were \$478 million, compared to the FY05 employer contribution amount of \$427 million. This decline is due to the employer payroll contribution rate decreasing from 13.439% in FY04 to 12.248% in FY05 (excluding the bond repayment contribution percentage).

Benefit payments increased 8.8% from FY04 to FY05. This was due to a scheduled 3% increase in most benefit payments and an increase in the number of retirees/survivors. The increase also reflects the new Alternate Retirement Cancellation Program in FY05.

INVESTMENTS

By state law, SERS' investment function is managed by the Illinois State Board of Investment (ISBI) along with the Judges' and General Assembly Retirement Systems. All investments are accounted for in a commingled ISBI fund. In FY05, investment income continued to reflect the positive direction of the markets.

FUNDING

The most recent actuarial valuation shows the total SERS actuarial liability was \$19.3 billion. The amount of liabilities exceeded net assets by \$8.8 billion on June 30, 2005, compared to an excess of \$8.5 billion on June 30, 2004. The funded status of SERS on June 30, 2005 increased to 54.4% from 54.2% on June 30, 2004.

Your Age & Deferred Compensation

The **SERS-O-GRAM** is published by the State Employees' Retirement System of Illinois 2101 S. Veterans Parkway P. O. Box 19255 Springfield, IL 62794-9255 217-785-7444 TDD: 217-785-7218

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SRS Executive Secretary,
Robert V. Knox

SERS BOARD OF TRUSTEES

Gordon John Mazzoti, Chairman

John Frigo, representing the
Director of the Governor's Office
of Management & Budget

Loren Iglarsh, representing
the State Comptroller

Michele Cusumano,
state employee
appointed by the Governor

Caryl Wadley-Foy,
elected state employee

Doris M. Clark,
elected annuitant

Joseph T. Pisano, retiree
appointed by the Governor

A good rule of thumb for investing is let your age be your guide. Generally, the younger you are, the more you should invest in stocks. The reason: over the long-term, stocks consistently provide returns that outpace inflation more than bonds or stable value investments. As you grow older, you may want to consider investing more conservatively. Choose your Deferred Compensation funds by decades.

Your 20s & 30s: Time to Start

You can gain the most from Deferred Compensation if you start investing in your 20s & 30s. Even small amounts saved during your early working years add up over time. That's because of compounding—earning interest on your original investment.



Your 40s: Time to Build

Even if you've put off saving for retirement until your 40s, you still have time to build your savings to a sizable sum over the rest of your working years. To keep inflation at bay, consider stocks.

Your 50s & 60s: Time to Review

Retirement is right around the corner, so you may want to reduce your risk exposure by gradually choosing more conservative investments.

Consider keeping a portion of your investment in stocks well into retirement. This may help your savings stay ahead of inflation, since it may need to last 20-30 years in retirement!

Investing for the Long-Term

Investing is easier when you choose investments that suit your age and goals. Review your investment mix periodically to meet your needs.

Just a reminder that if you want to participate in the NCPERS Life Insurance program, you must return the deduction card to your agency's Payroll Officer by January 31, 2006. The beneficiary designation card should be sent to the American Administrative Group in the envelope that was provided.

